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No. 03-779

IN THE

Supreme Court of the United States

Andrx Pharmaceuticals, Inc., *Petitioner,*

v.

The Kroger Co., Albertson's, Inc., Hy-Vee, Inc., The Stop & Shop Supermarket Co., Walgreen Co., Eckerd Corp., CVS Meridian, Inc., and Rite Aid Corp., *et al.*, *Respondents.*

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

MOTION FOR LEAVE TO FILE BRIEF AND BRIEF OF *AMICUS CURIAE* AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION IN SUPPORT OF NEITHER PARTY

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MOTION FOR LEAVE TO FILE *AMICUS CURIAE* BRIEF

The American Intellectual Property Law Association ("AIPLA") respectfully moves for leave to file the attached *amicus curiae* brief, pursuant to Supreme Court Rule 37.2(b), in favor of granting the petition for a writ of *certiorari*.

The AIPLA is a national bar association of more than 15,000 members with interests and practices primarily in the areas of patent, trademark, copyright, trade secret, and other areas of intellectual property law. Unlike areas of practice in which separate and distinct plaintiffs' and defendants' bars exist, most intellectual property lawyers represent both intellectual property owners and alleged infringers.

The Court should grant the AIPLA leave to file the attached *amicus curiae* brief, because—through its diverse representation of the intellectual property bar—it brings a broad perspective and extensive experience to the important issues raised below by the decision of the Sixth Circuit Court of Appeals. Those issues are vital to intellectual property owners, licensees, and the judicial system, because they affect parties engaged in settling patent litigations and licensing patents. The decision below strikes at principles that form the foundation for patent protection and the intersection of patent and antitrust law.

The AIPLA seeks to bring to the Court's attention highly relevant information on those issues. The AIPLA's information should be of considerable help to the Court in resolving the split on these issues between circuit courts of appeals. The Sixth Circuit's decision directly conflicts with a decision of the Eleventh Circuit. It also implicates a conflict

with patent misuse case law from the Federal Circuit and directly conflicts with a recent decision of the Federal Trade Commission. In resolving that split, the Court should have the benefit of the AIPLA's perspective and experience, which none of the individual parties below can provide.

The AIPLA sought consent to file an *amicus curiae* brief from the counsel of record for all parties, pursuant to Supreme Court Rule 37.2(a). Counsel for Petitioner (a defendant in the case below) and counsel for certain Respondents (plaintiffs-below) consented.[1] Counsel for certain other Respondents, however, did not consent to the AIPLA's filing a brief, and counsel for some other Respondents did not respond to the AIPLA's request.[2] Copies

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[1] Counsel for the following Respondents provided written consent to the AIPLA's filing an *amicus curiae* brief: CVS Meridian, Inc.; and Rite-Aid Corp. Counsel for the following Respondents orally informed the AIPLA's counsel of record that they consented, but did not indicate in writing whether they consented: The Kroger Co.; Albertson's, Inc.; Hy-Vee, Inc.; The Stop & Shop Supermarket Co.; Walgreen Co.; and Eckerd Corp. Additionally, counsel for co-defendant-below, Aventis Pharmaceuticals, Inc., provided written consent, although Aventis is not a party to the decision that is the subject of the instant petition.

[2] Counsel for the following Respondents did not consent to the AIPLA's filing an *amicus curiae* brief: Charles Zuccarini; Joseph D'Esposito; Shirlean Glover; Larry S. Sizemore; Albert Eirich; Aetna, Inc.; and Cobalt Corp. Counsel for one Respondent, Eugienia Wynee Sams, responded that his client is not in a position either to consent or to object to the AIPLA's filing such a brief. Counsel for the following Respondents did not respond to the AIPLA's request for consent, as of the date of this filing: Duane Reade, Inc.; and Louisiana Wholesale Drug Co.

of the responses received from the parties are being filed with the Clerk.

Accordingly, the AIPLA respectfully requests that the Court grant the AIPLA's motion for leave to file the attached *amicus curiae* brief.

Respectfully submitted,

Dated: December 29, 2003

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STATEMENT OF INTEREST[3]

The AIPLA has no interest in any party to this litigation or stake in the outcome of this case, other than its interest in seeking a correct and consistent interpretation of the law affecting intellectual property.

SUMMARY OF ARGUMENT

The Sixth Circuit's decision in *In re Cardizem CD Antitrust Litigation*, 332 F.3d 896 (6th Cir. 2003) (hereafter "*Cardizem*") imposed *per se* antitrust illegality for an agreement to settle patent litigation in which the patent owner gave consideration to the alleged infringer in exchange for an agreement not to practice the patent before patent expiration. Although the specific facts of the case relate to pharmaceutical companies settling litigation under the Hatch-Waxman Act, the detrimental effect of the Sixth Circuit's *per se* rule extends to all patent settlements and license agreements in all industries. The Sixth Circuit focused on monetary payments. But the implications are that any type of consideration flowing from a patentee to a potential infringer as part of the overall agreement would render the agreement *per se* illegal.

The Sixth Circuit's *per se* holding conflicts directly with the subsequent decisions of the Eleventh Circuit in *Valley Drug Co. v. Geneva Pharmaceuticals, Inc.*, 344 F.3d 1294 (11th Cir. 2003), and the Federal Trade Commission in *In re*

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[3] In accordance with Supreme Court Rule 37.6, the AIPLA states that this brief was not authored, in whole or in part, by counsel to a party to the instant petition, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the AIPLA or its counsel.

Schering-Plough Corp., Dkt. No. 9297, 2003 WL 22989651, at *10-*11 (FTC Dec. 8, 2003). Both subsequent decisions held that patent settlement agreements in which the patent owners made alleged "reverse payments" to the accused infringers, *i.e.*, where the patent owner provided consideration to the accused infringer in exchange for an agreement that the accused infringer will not practice the patent in dispute, should be judged under the Rule of Reason, not the *per se* rule. In addition, the Sixth Circuit's decision implicates a conflict with the Federal Circuit's case law regarding patent misuse, which evaluates such restrictions under the Rule of Reason. *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706-08 (Fed. Cir. 1992).

The AIPLA takes no position on the merits of this case or who should prevail on the instant facts under a Rule of Reason analysis. Instead, the AIPLA strongly believes that the Rule of Reason should provide the structure for the analysis, rather than the *per se* rule.

This is an important issue with widespread impact on numerous parties to all types of patent settlements and licenses, upon which two courts of appeals have directly conflicting opinions. For this reason, the AIPLA urges the Court to grant the petition for *certiorari* to resolve the conflict.

ARGUMENT

I. The *Per Se* Illegality Rule the Sixth Circuit Announced in *Cardizem* Will Have Grave Consequences for Patent Owners, Alleged Infringers, and Patent Licensees

In *Cardizem*, the Sixth Circuit ruled that a patent infringement settlement was, "at its core, a horizontal agreement to eliminate competition in the market for [the patent owner's product] throughout the United States, a classic

example of a *per se* illegal restraint of trade." 332 F.3d at 908. The "core" provision on which the court focused was the accused infringer's agreement not to sell its allegedly infringing product in the United States—*i.e.*, not to practice the patent—during a portion of the patent's term, in exchange for consideration from the patent owner. *See id.*, 332 F.3d at 907-08.

The case arose in the context of settlement of patent infringement litigation between a brand-name pharmaceutical manufacturer and a potential generic drug competitor under the "Hatch-Waxman Act." Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (1984). The implications of the *per se* rule that the Sixth Circuit established, however, reach far beyond that context. It calls into question the legality of commonly accepted provisions in patent settlement and license agreements that historically have been judged under the Rule of Reason.

The effect of the Sixth Circuit opinion is not limited to just the settlement of patent infringement litigations. The decision found the agreement *per se* illegal without considering the procompetitive justification, *i.e.*, it settled litigation. *See Cardizem*, 332 F.3d at 908-09. The *Cardizem* rule thus implicates provisions in commercial patent licenses in all contexts, in agreements to settle other types of patent suits and interferences, and in agreements reached to resolve disputes before litigation begins, where any consideration flows from the patent owner to the alleged infringer.

Accused infringers who decide to end patent infringement litigation often agree to the full injunctive relief available to the patent owner under the Patent Code. *See* 35 U.S.C. § 283 (2000). They agree not to practice the patent—*i.e.*, not to make, use, sell, offer to sell, or import the allegedly infringing product or process—anywhere in the United States

during the patent term. Often they do so in exchange for consideration by the patentee, *e.g.*, cessation of litigation and forgiveness of damages.[4]

Other routine settlement agreements and licenses often permit the potential infringer to practice the patent only within a certain scope limited by, for example, geographic territory or field of use, in exchange, at least in part, for a contractual equivalent of an injunction for the remaining scope of the patent.[5] Such restrictions traditionally have been evaluated

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[4] *See, e.g.*, Raymond C. Nordhaus, *Patent License Agreements: Law and Forms*, Forms 57.01-57.03, at 57-5 (2d ed. 1986), which gives examples of such a provision, including (Form 57.01):

> XYZ agrees to hereafter avoid any and all infringement, directly or indirectly, of said Letters Patent, either by the manufacture of products of the forms particularly complained of by ABC and sold by XYZ or otherwise.
>
> ABC hereby releases XYZ and its customers from any claim of infringement of said Letters Patent arising prior to the effective date of this Agreement, such release being conditioned upon the continued observance by XYZ of its obligation not to infringe said Letters patent hereafter.

[5] *See, e.g.*, Brian G. Brunsvold & Dennis P. O'Reilley, *Drafting Patent License Agreements* (4th ed. 1998), which gives examples of such provisions:

> LICENSOR hereby grants to LICENSEE, to the extent of the LICENSED FIELD and LICENSED TERRITORY, a license under PATENTS and IMPROVEMENTS to make, use, offer to sell, sell, and import LICENSED PRODUCTS. LICENSEE acknowledges and agrees that no license is granted or implied under, and agrees not to practice under,

footnote continued ...

under the Rule of Reason. *See, e.g., Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 129 (9th Cir. 1954) (holding that an agreement that a licensee under a United States patent "will not sell or export" to any foreign country any products made under the license was "an agreement by [the licensee] to honor the territorial limits of the license granted, and was lawful" under the antitrust laws); *Miller Insituform, Inc. v. Insituform of N. America, Inc.*, 605 F. Supp. 1125, 1130-31, 1130 n.3 (M.D. Tenn. 1985), *aff'd*, 830 F.2d 606 (6th Cir. 1987) (district court holding as a matter of law that patent licensor's use of geographic restrictions in sublicensing its patent within the United States is immunized from antitrust liability under 35 U.S.C. § 261 (2000), but in any event is subject to analysis under the Rule of Reason rather than the *per se* rule; Sixth Circuit affirming and holding that patent owner did not violate Sherman Act § 2, 15 U.S.C. § 2, by exercising its patent right to exclude a former licensee from practicing the patent); *United States v. Studiengesellschaft Kohle, m.b.H.*, 670 F.2d 1122, 1132-35 (D.C. Cir. 1981) (upholding field of use restriction under Rule of Reason and

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> PATENTS and IMPROVEMENTS outside the LICENSED FIELD and LICENSED TERRITORY.

Appendix E, provision 3.0, at 287.

> LICENSEE acknowledges and agrees that the rights granted to it under this Agreement are limited to the licenses granted in paragraphs ___ and ___ hereof. LICENSEE acknowledges that the grant of those rights are conditioned on its agreement to refrain from using LICENSED PATENTS or LICENSED TECHNOLOGY outside the LICENSED FIELD and the LICENSED TERRITORY and that any such activity by LICENSEE shall be a material breach of this Agreement.

Form 17.00 B at 162.

rejecting *per se* rule); *see also Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 127 (1938) ("The practice of granting licenses for a restricted use is an old one. . . . So far as appears, its legality has never been questioned.").

Despite the Rule of Reason treatment historically given to these common provisions, the principle of the Sixth Circuit's *per se* rule would condemn them categorically, because consideration flows from the patent owner to the accused infringer in exchange for an agreement not to practice the patent, in whole or in part. This principle introduces enormous uncertainty into routine agreements.

It is entirely unclear, for example, what kinds of compensation would trigger *per se* liability. The flow of consideration from the patent owner to the alleged infringer is inevitable in any patent settlement. Indeed, contracts require the exchange of some consideration to be enforceable. *See* Restatement (Second) of Contracts § 17 (1981); *see also Asahi Glass Co. v. Pentech Pharmaceuticals, Inc.*, No. 03-C-3646, 2003 WL 22462405, at *6 (N.D. Ill. Oct. 29, 2003) (Posner, J., sitting by designation) (explaining that "*any* settlement agreement can be characterized as involving 'compensation' to the defendant, who would not settle unless he had something to show for the settlement.")

Such "compensation" may take the form of, for example, a license with a favorable royalty arrangement, a cross-licensing opportunity, settlement of patent disputes in other countries, reimbursement of attorneys' fees, or surrender of a claim for money damages. Given the multitude of arguable benefits to a licensee in any licensing arrangement, a principle that relies on the receipt of consideration by the licensee as a hallmark of *per se* illegality "would appear to be quite difficult [if not impossible] to contain." *Broadcast*

Music, Inc. v. Columbia Broadcast Sys., Inc., 441 U.S. 1, 16 (1979) (hereafter "*BMI*").

Even if the *per se* rule were to apply only to cash payments, such as were involved in *Cardizem*, the Sixth Circuit's decision would raise a number of important questions. The *Cardizem* decision creates a *per se* rule without regard to the possible *pro*-competitive effect of settlement and without regard to the possible implications of the decision outside of the Hatch-Waxman Act structure. As the Federal Trade Commission recently pointed out, in the same Hatch-Waxman Act context as the instant case, agreements that include such payments "can be procompetitive in limited circumstances," for example, by providing needed capital to fund development of a new product. *Schering-Plough*, 2003 WL 22989651, at *11. Other questions would arise as well. For example, should there be an exception for payments limited to the nuisance value of the lawsuit? Should the rule be applied to payments that do not exceed the amount the defendant might have earned if it had prevailed in the lawsuit? Or should the rule apply only to payments that constitute sharing of monopoly rents? The Sixth Circuit's decision either leaves these questions unanswered, or it answers that they do not matter. The Sixth Circuit's rule thus fails to serve the policy objectives of "business certainty and litigation efficiency" that underlie the *per se* rule. *Arizona v. Maricopa Cty. Med. Soc.*, 457 U.S. 332, 343-44 (1982). If the receipt of consideration by the licensee has any relevance at all, its relevance can only be sensibly judged under the Rule of Reason.

The effect of the Sixth Circuit's rule extends beyond the Hatch-Waxman Act context and the pharmaceutical industry. As the Sixth Circuit itself recognized, the *per se* rule "establishes one uniform rule applicable to all industries alike." *Cardizem*, 332 F.3d at 908 (quoting *Arizona*, 457 U.S.

at 349, in turn quoting *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 222 (1940)). Thus, by applying the *per se* rule to all patent settlements in "all industries alike," the Sixth Circuit's decision will cause a chilling effect, inhibiting any compromise and dispute resolution by parties in other contexts.

The Sixth Circuit's rule also undermines the enforceability of patents. By applying the *per se* rule to agreements that would otherwise pass muster under the Rule of Reason, the *Cardizem* rule can increase the number of patents that become unenforceable. *Per se* antitrust violations are considered misuse, rendering the patents unenforceable until the misuse is purged. *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 706, 708 (Fed. Cir. 1992); *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1001-02 (Fed. Cir. 1986); *see also Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 491-93 (1942).

Finally, the rule may have retroactive effect on large numbers of patent owners who agreed, in a settlement or license, not to practice the patent to some extent during its term in exchange for consideration. *See Harper v. Va. Dept. of Taxation,* 509 U.S. 86, 97-98 (1993) (explaining that newly announced rule of federal law applies retroactively unless court reserves the question of the applicability of the new rule to parties before it); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 344 F.3d 1359, 1370 n.4 (Fed. Cir. 2003) (applying newly established presumption under doctrine of equivalents "to all granted patents and to all pending litigation that has not been concluded with a final judgment, including appeals.").

This uncertain state of affairs creates a substantial risk of treble damages for parties to patent settlement and licensing agreements throughout the country, invalidation of those

agreements, and unenforceability of underlying patents. The outcome of any antitrust challenge to the agreements will depend on where the parties are sued and, if outside of the Sixth and Eleventh Circuits, which of these two competing rules will be applied. The result will be a powerful deterrent to legitimate business arrangements. A corresponding reduction in the number of patent settlements and licenses, and in the efficiency of those transactions, likely will follow. *See Bus. Elec. Corp. v. Sharp Elec. Corp.*, 485 U.S. 717, 728 (1988) ("Manufacturers would be likely to forgo legitimate and competitively useful conduct rather than risk treble damages and perhaps even criminal penalties."). This deterrent effect is intensified by the increasing prevalence of antitrust class action suits attacking patent settlement and licensing agreements, as this case and others cited in the Petition attest. *See* Petition for Writ of *Certiorari, Andrx Pharmaceuticals, Inc. v. The Kroger Co.*, Dkt. No. 03-779, at 13 (filed in S. Ct. Nov. 28, 2003).

In sum, the far-reaching effects of the Sixth Circuit's *per se* rule decision provide compelling reasons for review by this Court.

II. The *Cardizem* Decision Threatens To Upset the Proper Balance Between Patent Law and Antitrust Law, and Conflicts with Established Federal Circuit Law on Patent Misuse

"The essence of a patent grant is the right to exclude others from profiting by the patented invention." *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 (1980); *see* 35 U.S.C. § 154(a)(1)(2000) ("Every patent shall contain . . . a grant to the patentee . . . of the right to exclude others . . . ."). Ignoring the patent law, the Sixth Circuit looked only to antitrust law, *Cardizem*, 332 F.3d at 906-09, contrary to this Court's instructions to balance the two: "The

patent laws . . . are in *pari materia* with the antitrust laws and modify them *pro tanto*." *Simpson v. Union Oil Co. of Calif.*, 377 U.S. 13, 24 (1964); *see Dawson*, 448 U.S. at 221 ("The policy of free competition runs deep in our law. . . . But the policy of stimulating invention that underlies the entire patent system runs no less deep.").

The Sixth Circuit's key finding that the settlement agreement was a horizontal agreement among competitors meant that it had to ignore the patent owner's fundamental legal right to exclude an infringer from practicing its patent.[6] This represents a fundamental shift in antitrust analysis. This Court has long maintained that antitrust analysis may not "ignore[] the privileges incident to ownership of patents." *Standard Oil Co. v. United States*, 283 U.S. 163, 172 (1931); *see Studiengesellschaft Kohle*, 670 F.2d at 1128-29 (explaining that it was error to determine anticompetitive effects without considering patent's exclusionary power).

A *per se* analysis that ignores the exclusionary power of the patent at issue has profound implications for all kinds of patent agreements. Under that principle, restrictions operating

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[6] In fact, the Sixth Circuit reached for the wrong label in branding the licensing arrangement a "horizontal agreement." The court was able to do so only by ignoring the exclusionary power of the patent that was the subject of the settlement—an approach that this Court has long condemned. *See, e.g., Standard Oil Co. v. United States*, 283 U.S. 163, 172 (1931). Had the court of appeals taken the patent rights into account, it would have had to conclude that the parties' relationship was vertical, not horizontal, for which a *per se* analysis would have been even less appropriate. *See* U.S. Department of Justice and Federal Trade Commission, Antitrust Guidelines for the Licensing of Intellectual Property, § 3.3 and Example 5, 1995 WL 229332, at *9-*10 (Apr. 6, 1995) (relationship is vertical if licensee could not have competed without a license from the patent owner).

within the scope of the patent, such as territorial or field of use restrictions discussed above, become subject to *per se* illegality.

Moreover, *Cardizem's per se* antitrust liability rule runs directly counter to the patent misuse rule applied by the Federal Circuit, which holds that restrictions within a patent's scope are *per se* not misuse. In *Mallinckrodt,* the Federal Circuit reaffirmed that "[r]estrictions on use are judged in terms of their relation to the patentee's right to exclude for all or part of the patent grant." 976 F.2d at 706. Accordingly, "[s]hould the restriction be found to be reasonably within the patent grant, *i.e.,* that it relates to subject matter within the scope of the patent claims, that ends the [misuse] inquiry." *Id.* at 708. Indeed, the Federal Circuit explained that even those restrictions that extend "beyond the patentee's statutory right to exclude" are evaluated for misuse under the Rule of Reason, unless they are *per se* antitrust violations. *Id.*

In contrast to the Sixth Circuit's *Cardizem* decision, and expressly disagreeing with *Cardizem's per se* rule, the Eleventh Circuit recognized these fundamental tenets of patent law in *Valley Drug Co. v. Geneva Pharmaceuticals, Inc.*, 344 F.3d 1294, 1304-05, 1311 n.26 (11th Cir. 2003). The Eleventh Circuit understood that the exclusionary effect of the patent is "at the heart of the patent right and cannot trigger the *per se* label. . . . [T]he exclusion of infringing competition is the essence of the patent grant." *Id.* at 1306. Accordingly, in contrast to the Sixth Circuit's ignoring the effect of the patent, the Eleventh Circuit correctly concluded that "when patents are involved . . . the exclusionary effect of the patent must be considered before making any determination as to whether the alleged restraint is *per se* illegal." *Id.* (quoting from *Ciprofloxacin Hydrochloride Antitrust Litig.*, 261 F. Supp.2d 188, 249 (E.D.N.Y. 2003)).

The Eleventh Circuit correctly states the rule that traditionally has applied and that the AIPLA respectfully urges should continue to apply.

III. The Sixth Circuit's Erroneous Application of the *Per Se* Rule Imperils Economically Beneficial Settlement and License Agreements

The "prevailing standard of analysis" under Section 1 of the Sherman Act, 15 U.S.C. § 1 (2000), is the Rule of Reason. *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 49 (1977) (hereafter "*Sylvania*"). A court applying the Rule of Reason would take into account all of the facts and circumstances surrounding the settlement, including the relative merits of the litigation positions and the unique regulatory overlay of the Hatch-Waxman Act.[7] More importantly, it would consider any procompetitive or efficiency effects of the settlement. But in applying the *per se* test, the Sixth Circuit refused to consider any potential benefits of the agreement. The court's failure to do so was a grievous error.

"*Per se* rules of illegality are appropriate only when they relate to conduct that is manifestly anticompetitive."

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[7] One aspect of the Hatch-Waxman Act scheme is that in some situations a settlement agreement with the first generic drug applicant that has filed for FDA approval to market prior to patent expiration, and thereby obtained 180 days of market exclusivity under the Hatch-Waxman Act's provisions, can operate to delay the entry of later generic drug applicants, whereas settlements with subsequent generic filers would have no such effect. *See* David Balto, *Pharmaceutical Patent Settlements: The Antitrust Risks*, 55 Food & Drug L. J. 321, 334-35 (2000). Thus, the impact of any settlement on the statutory 180-day exclusivity period may be relevant and should be judged under a Rule of Reason analysis.

Sylvania, 433 U.S. at 49-50. Unless "the practice facially appears to be one that would always or almost always tend to restrict competition and decrease output," it does not qualify for *per se* treatment. *BMI*, 441 U.S. at 19-20. Practices that tend to increase economic efficiency, on the other hand, are governed by the Rule of Reason. *See id.* at 20; *Sylvania*, 433 U.S. at 54 (practices that achieve efficiencies have "redeeming virtues" that warrant Rule of Reason treatment); *Northwest Wholesale Stationers, Inc. v. Pac. Stationery and Prtg. Co.*, 472 U.S. 284, 290 (1985) (*per se* treatment is limited to those concerted refusals to deal that lack "any offsetting efficiency gains").

The Sixth Circuit condemned categorically under a novel *per se* rule settlement agreements and licensing provisions that do not meet these demanding criteria. However, the lack of long judicial experience with patent settlements involving "reverse payments," a feature that was critical to the court's *per se* conclusion, counsels against *per se* treatment. *See United States v. Topco Assoc., Inc.*, 405 U.S. 596, 607-08 (1972).

The Federal Trade Commission has also concluded that a *per se* approach was not appropriate for a patent settlement in the Hatch-Waxman Act context, where it found consideration was paid to the accused infringer in exchange for an agreement not to practice the patent. *See Schering-Plough*, 2003 WL 22989651 at *10-11. Indeed, the FTC believed that the Sixth Circuit's *Cardizem* opinion had not "taken adequate account of Supreme Court decisions that mandate a more nuanced approach. *See, e.g., California Dental Ass'n v. FTC*, 526 U.S. 756 (1999); *National Collegiate Athletic Ass'n v. Board of Regents of the University of Oklahoma*, 468 U.S. 85 (1984)." *Schering-Plough*, 2003 WL 22989651, at *49 n.26.

The probable result of the Sixth Circuit's decision will be to discourage many forms of settlement and license agreements that would deliver substantial economic benefits. Its impact will be felt most directly in the context of settlement agreements. The appellate court viewed the fact that the agreement settled patent litigation as "simply irrelevant" to its *per se* determination. *Cardizem*, 332 F.3d at 909. In so doing, it ignored the substantial economic benefits of patent settlements. Settlements facilitate innovation and investment in the patented technology by eliminating litigation risks and providing certainty over patent rights, and by freeing up for more productive uses resources that would otherwise be devoted to litigation. *See* James Langenfeld & Wenquing Li, *Intellectual Property Agreements To Settle Patent Disputes: The Case of Settlement Agreements with Payments from Branded to Generic Drug Manufacturers*, 70 Antitrust Law Journal 777, 778 (2003). These efficiency-enhancing benefits further the goals of the antitrust laws, *see FTC v. Indiana Fed'n of Dentists,* 476 U.S. 447, 459 (1986) (efficiencies in the operation of a market or the provision of goods and services is a "procompetitive virtue"), and the patent laws, *see Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (uncertainty over scope of patent rights "would discourage invention only a little less than unequivocal foreclosure of the field" (quoting *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942))).

Settlement also serves an important public policy favoring resolution of disputes without litigation:

> Settlement is of particular value in patent litigation, the nature of which is often inordinately complex and time consuming. . . . By such agreements are the burdens of trial spared to the parties, to other litigants waiting their turn before over-burdened courts, and the

> citizens whose taxes support the latter. An amicable compromise provides the more speedy and reasonable remedy for the dispute.

Aro Corp. v. Allied Witan Co., 531 F.2d 1368, 1372 (6th Cir. 1976); *see E. Bement & Sons v. National Harrow Co.*, 186 U.S. 70, 93 (1902) (settlement of patent litigation through license agreements is "a legitimate and desirable result in itself"); *St. Louis Mining & Milling Co. v. Montana Mining Co.*, 171 U.S. 650, 656 (1898) ("[S]ettlements of matters in litigation or in dispute without recourse to litigation are generally favored").

The court's rationale in striking down the settlement agreement, however, reaches far beyond the settlement context, for it would also outlaw commonly accepted contractual provisions, such as territorial and field of use restrictions in exchange for consideration from the patent owner, as discussed above. The potential procompetitive virtues of these kinds of provisions are well accepted and have been strongly endorsed by both federal antitrust agencies:

> Field-of-use, territorial, and other limitations on intellectual property licenses may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible. These various forms of exclusivity can be used to give a licensee an incentive to invest in the commercialization and distribution of products embodying the licensed intellectual property and to develop additional applications for the licensed property.

U.S. Department of Justice and Federal Trade Commission, *Antitrust Guidelines for the Licensing of Intellectual Property*, 1995 WL 229332, at *4 (April 6, 1995).[8]

These are but a few of the potential adverse consequences of the Sixth Circuit's expanded *per se* rule. The AIPLA respectfully submits that these consequences alone are sufficient to warrant review by this Court.

CONCLUSION

The Sixth Circuit's rule imposing *per se* antitrust liability for common restrictions within the scope of the patent grant is an important issue with widespread impact on patent settlements and licensing. It threatens to have a very significant and detrimental effect on the value of patents and their competitive benefits. The Sixth Circuit's decision directly conflicts with decisions from the Eleventh Circuit and the FTC, and implicates a conflict with case law on patent misuse from the Federal Circuit. This Court should resolve the conflict. Accordingly, the AIPLA respectfully urges this Court to grant the petition for *certiorari*.

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[8] The fact that the federal agencies charged with enforcing the antitrust laws endorse these benefits, while not dispositive, adds an additional cautionary note against *per se* treatment. *See BMI*, 441 U.S. at 16.

Respectfully submitted,

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